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C O N F I D E N T I A L SECTION 01 OF 02 SARAJEVO 000377

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SUBJECT: ITA POSITION USED FOR POLITICAL LEVERAGE AMONG  
ETHNIC GROUPS

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Classified By: DCM Judith Cefkin for reason 1.4 d

¶1. (C/NF) Summary: The position of the Director of the Indirect Taxation Authority (ITA) has opened another struggle for "ethnic balance" in state-level institutions. The current director, Kemal Causevic, is a Bosniak who has managed to keep the institution functioning at a basic level, but has been discredited by rumors of corruption and mismanagement. The two candidates who received the highest marks from the ITA Governing Board were Serb Mrkonjic Grad Mayor Zoran Tegeltija and Croat Miro Dzakula. This decision will be considered with other hotly contested positions that are open, including the Central Bank Governor and the Director of European Integration. End Summary.

¶2. (C/NF) The ITA manages collection of value-added taxes (VAT), customs duties and other taxes and allocate revenue to the two entities after funding the State and Brcko budgets. The ITA is, therefore, at the heart of the fiscal basis for government in Bosnia. It is an example of a state-level institution that continues to fulfill its mandate, albeit in the face of near constant complaining from Republika Srpska Prime Minister Milorad Dodik and other Serbs who believe that the Federation receives more than its fair share of the VAT allocation. The term for the ITA Director, a seat currently held by Bosniak Kemal Causevic, technically expired in December 2008. Despite pressure from the international community to expedite a nomination for a new director, the Council of Ministers has been exceedingly slow.

THE FINAL SIX CANDIDATES FOR ITA DIRECTOR  
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¶3. (C/NF) Although the procedure for nominating the next ITA Director is not transparent, local media revealed the final six candidates that the ITA Governing Board interviewed for the position. They are as follows: Kemal Causevic (Bosniak - Current Director), Vedad Arnautovic (Bosniak), Vinko Corluka (Croat), Miro Dzakula (Croat), Zoran Tegeltija (Serb), and Mile Kudic (Serb). Tegeltija and Dzakula received the highest ratings from the Board (9.66 out of 10 points), Causevic and Kudic followed with 6.00 points each and Corluka and Arnautovic were graded negatively. Local media noted that Tegeltija seems to have a leading edge among the Governing Board members. The results of the interviews were then forwarded to the Council of Ministers (COM) who will

ultimately confirm the nomination. The COM is not bound by this rank order and can select any of the six candidates from the list.

14. (C/NF) Tegeltija is an ethnic Serb and the Mrkonjic Grad Mayor. He is a prominent member of RS Prime Minister Dodik's SNSD party and a friend of Dodik, according to the Embassy's branch office in Banja Luka. He was a member of the RS parliament from 2000-2002. He was just re-elected as Mrkonjic Mayor in 2008 for a second four-year term. He has relevant tax experience. Tegeltija previously worked at the RS Customs Service and the RS Tax Administration. He was the chairman of the State Commission for border crossings from 2000-2002. Kudic is also an ethnic Serb and a member of the ITA Governing Board with the title of indirect tax expert. Kudic's mandate on the board expires at the end of March. He was in the running for Causevic's job in 2003, and has been a vocal opponent of Causevic, albeit with some cause. Causevic was the first ITA Director, appointed in 2003, and has kept the organization functioning since that time. We have heard, however, many tales of mismanagement under his tenure -- especially his tendency to control every minor decision -- something that is not realistic in an organization of more than 2000 employees. There are also allegations of corruption. Dzakula is from Capljina and works for the ITA in an administrative office in Mostar. Although he is not an official member of HDZ BiH, he is allegedly close to party officials. He was previously a Federation Tax Inspector in the Cantonal Tax Administration and an Assistant Professor at the Faculty of Economics at the University of Mostar. The remaining candidates are not well known although Arnautovic was at one time a lawyer on the ITA staff.

#### INTERNATIONAL OPINION

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15. (C/NF) The Dutch Embassy has taken an active role in the success of the ITA since its creation. Although he does not favor a particular candidate, the Dutch Ambassador recently met with SDA President Tihic to press for a transparent and expedient process to nominate the next ITA Director. New Zealander Peter Nicholl, former international head of the ITA Governing Board and Central Bank, will soon begin a consulting contract, paid by the Dutch, to improve the ITA's staff performance. The Office of the High Representative (OHR) is also actively monitoring the ITA nomination process, and is also not pressing for a particular candidate. However, in our private discussions, it appears that the head of the Economic Division for OHR, Amela Kreho, would personally prefer that Causevic continue for another term. This view seems to be held by a number of Bosniaks we have consulted.

#### ETHNIC BALANCE AND THE ROLE OF OTHER INSTITUTIONS

16. (C/NF) Similar to the difficulties facing many other state-level nominations, the process of nominating of the ITA Director is subject to concerns about "ethnic balance" in state-level institutions. We believe that the ITA Director position will not be a decision made in isolation. Each side sees "balance" in a different light, rarely focusing on the most qualified candidate for a particular position. Serb politicians have been particularly vocal in pushing for a Serb candidate to replace Causevic at the ITA. Local media speculate that a Serb, likely Tegeltija, would take over the ITA Directorship and a Croat would take over the Director of European Integration, another hotly contested position that has remained unfilled for several months. OHR is also concerned that the position of the Central Bank Governor, currently a well-respected Bosniak, may be given to an official of another ethnicity in the name of ethnic balance. (Comment: OHR favors keeping Governor Kozaric in his position for another term, and we agree. End Comment.)

COMMENT

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17. (C/NF) Causevic's mismanagement and rumors of corruption prevent us from advocating for him to continue as ITA Director. On paper, the two Serb candidates are the most qualified to run the operation. However, their close ties to Dodik and Dodik's continued attempts to discredit the ITA and transfer indirect taxation authority back to the RS lead us to be wary that their real task, if selected, would be to destroy the company from within (similar to the ongoing TRANSCO mess). In these circumstances, we have joined others in the international community to support transparency in the nomination process. We have highlighted the importance of the position and have urged Bosnian leaders to choose the most qualified candidate.

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